

AR79

CANADIAN
CORPORATE
MANAGEMENT
COMPANY
LIMITED
Annual Report
1979

file



Officers

Hon. Walter L. Gordon—Chairman
A. J. MacIntosh, Q.C. —Vice Chairman
Peter A. G. Cameron —President
J. Boyd Clarke —Vice President
J. P. Parker —Vice President
J. A. McKee —Vice President, Finance
T. M. H. Hall —Controller
D. S. Hackett —Manager,
Marketing Research
W. H. Irwin —Technical Director
D. S. Piercey —Administrator,
Employee Benefits
R. F. Taylor —Director,
International Sales

Board of Directors

L. C. Bonnycastle —Toronto
J. M. Brunton —Toronto
Peter A. G. Cameron —Toronto
J. Boyd Clarke —Toronto
Duncan L. Gordon —Toronto
Hon. Walter L. Gordon —Toronto
*A. G. S. Griffin —Toronto
*C. Malim Harding —Toronto
Hon. Maurice Lamontagne—Ottawa
A. J. MacIntosh, Q.C. —Toronto
J. H. Moore —London
J. P. Parker —Toronto
*B. H. Rieger —Toronto
Zoltan D. Simo —Toronto

*Member of the Audit Committee

Head Office

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Commerce Court West,
P.O. Box 131,
Commerce Court Postal Station,
Toronto, Canada M5L 1E6

Transfer Agents

National Trust Company, Limited
Montreal, Toronto and Calgary

The Canadian Bank of Commerce
Trust Company
New York

Annual Meeting

The Annual and Special General Meetings of shareholders of Canadian Corporate Management Company Limited will be held on Thursday May 22, 1980 at 10:30 a.m. in Commerce Hall, Commerce Court, King and Bay Streets, Toronto, Canada.

Directors' Report to Shareholders



Peter A. G. Cameron, President Hon. Walter L. Gordon, Chairman
A. J. MacIntosh, Q.C., Vice-Chairman

Our company's results for the year 1979 compared with those for 1978 are summarized hereunder.

	1979	1978	Increase or (Decrease)	
	000's	000's	000's	%
Sales	<u>\$381,532</u>	<u>\$316,800</u>	<u>\$64,732</u>	20.4
Net income before the undernoted items	37,459	31,017	6,442	20.8
Interest	8,595	4,706	3,889	82.6
Depreciation and amortization	5,975	5,299	676	12.8
	14,570	10,005	4,565	45.6
	22,889	21,012	1,877	8.9
Income taxes	8,976	8,834	142	1.6
	13,913	12,178	1,735	14.2
Minority interest	674	771	(97)	(12.6)
Net income for the year	<u>\$ 13,239</u>	<u>\$ 11,407</u>	<u>\$ 1,832</u>	16.1
Net income per common share	<u>\$5.93</u>	<u>\$5.15</u>	<u>\$.78</u>	15.1

The sales of our various subsidiaries increased by 20.4%. Net income, amounting to \$13,239,000 was 16.1% over the cor-

responding figure for 1978. Net income per share increased by 15.1%, the difference being accounted for by shares issued in December 1979 under the Senior Executive Stock Purchase Plan. However, it should be noted that net income per share expressed in constant (1971) dollars would be \$3.12 in 1979 compared with \$2.94 in 1978, an increase of 6% rather than the 15.1% increase shown in current dollars.

Interest charges amounted to \$8,595,000, an increase of nearly \$4 million over the corresponding figure for 1978.

Our company's equity per common share at December 31 1979 was \$31.59 compared with \$27.65 at December 31 1978, an increase of 14.2%.

In 1979, we earned 20.3% on shareholders' equity compared with 18.8% in 1978.

Export sales increased by 24% in 1979 to comprise 19% of sales of manufactured products.

1979 was a difficult year for some of our thirty subsidiaries but only one of them, Jelinek Sports suffered a loss. The net income of seven of the subsidiaries each exceeded \$1,000,000. Taken altogether, we consider that our 1979 results were satisfactory. It is the number and variety of our investments that give our company its basic strength.

Our balance sheet shows a strong position despite the effects of inflation in recent years, although inventories and bank advances have increased considerably. Our current ratio of 1.6:1 and an equity to long-term debt ratio of 4.7:1 give an indication of the company's inherent strength.

We could, of course, increase our long-term debt at any time which would have the effect of increasing our current ratio (current assets to current liabilities) but we see no good reason for doing this at present.

We have continued our policy of keeping the plants and equipment of our subsidiaries up to date. During 1979, capital expenditures amounted to \$8,568,000. Some of the larger additions consisted of a new building for Hull-Thomson Limited in Windsor, increased production capacity at Northern Pigment Limited, an extension to the Saltfleet plant of Neo Industries Limited together with machining and chrome plating lines, the completion of the installation of the Baker Perkins web press at RBW Inc. in Owen Sound, land and building acquisitions for new retail outlets of Larkin Lumber Limited, and a large addition to the head office building of Regal Greetings & Gifts Limited.

Research and development spending was increased from prior years' levels, many of the programs being supported by federal government incentives. Reacting to the growing energy crisis, Chromalox Canada Inc. has started research in several areas related to electrical and thermal energy. A separate research facility was established in 1979 for these projects. RBW Inc. intensified its development activity for electronic publishing systems in association with a major computer manufacturer. Milltronics Limited successfully introduced a new development for linear measurement applications, displacing previously imported products.

We are pleased that Mr. Duncan L. Gordon, one of our largest shareholders, has joined our board of directors upon his retirement from Clarkson Gordon, Chartered Accountants. He was Chairman of the Executive Committee of that firm for the past eight years.

There have been several senior management changes in our various subsidiaries during the year which are reported briefly as follows:

- Mr. J. M. Brunton has retired as Chief Executive Officer of Larkin Lumber Limited but will remain a member of our board of directors.
- Mr. J. F. Haldimand became President and Chief Executive Officer of Larkin Lumber Limited effective January 1, 1980, and Mr. A. R. Williamson has been appointed Vice President, Finance, of that company. Mr. Haldimand has been with the Larkin group as President of Peterborough Lumber Limited for many years. Mr. Williamson brings to the company a broad background in finance and general management.
- With the retirement of the four Cutler brothers, Mr. E. H. Durnan was appointed President of Cutler Brands Limited and Cutler Designs Limited. Mr. Durnan has been with our company for seven years and has devoted much of his time to these two companies. Mr. A. R. Tressel has joined the Cutler companies as Vice President, Marketing, after a long and successful career in the manufacturing and decorating of glass products.
- Mr. R. S. Morgenthal joined Regal Greetings & Gifts Limited as Vice President, Finance. Mr. Morgenthal brings to Regal a strong background in finance, systems and general management.
- Mr. E. J. Marks has recently been promoted to the position

of Vice President and General Manager of Dominion Forge Company Limited. He has had a lengthy and successful career with the company in manufacturing and industrial relations.

- Mr. J. P. Jones, President of Neo Industries Limited, has assumed responsibility for The Guelph Engineering Company Limited in addition to his present responsibilities. Mr. Jones' experience and ability in product innovation and development of new product lines will be of great help to Guelph Engineering in its diversification program.
- Two important promotions were made at RBW Inc., Mr. F. R. Gilbey to the position of Vice President, Manufacturing, and Mr. K. C. Cruickshank, Vice President, Sales.
- In order to expand export opportunities of the various manufacturing companies, Mr. R. F. Taylor was appointed Director of International Sales.

In December, the directors approved a stock purchase plan for our senior executives including the heads of the larger subsidiary companies. Under the plan, interest-free loans were made available to the executives to pay for a specified number of treasury shares. All of the eligible executives took advantage of the plan, subscribing for a total of 91,600 shares. The loans amounted to \$1,786,200 and are included with non-current receivables in the balance sheet. These loans are repayable over a period of seven years.

The regular quarterly dividend on the Class A and Class B shares was increased from 37½ cents per share to 40 cents per share commencing with the dividend payable April 15, 1980 on shares outstanding on March 31, 1980. This means an increase in the indicated annual dividend from \$1.50 to \$1.60 per share.

At a special general meeting to be held at the time of the annual general meeting on May 22, 1980, shareholders will be asked to approve the following changes in the company's capital structure:

- (i) The number of shares outstanding will be doubled.
- (ii) In exchange for each common share (either Class A or Class B) presently outstanding, a shareholder will receive one new Class X share and one new Class Y share.
- (iii) The new Class X shares will be non-voting and will be entitled to a dividend of 10 cents per share per annum

plus equal participation in any dividends paid on the new Class Y shares; the present indicated dividend on the new Class X shares will be 90 cents per annum. Until June 27, 1980, a shareholder may convert these new Class X shares into new Class Y shares but this privilege will expire on June 28, 1980. A new Class X share is entitled to a vote if the company fails to pay a dividend of 10 cents per share for two successive years.

- (iv) The new Class Y shares will be voting shares and will be entitled to dividends after the new Class X shares have received 10 cents per annum; the indicated dividend for these shares will be 80 cents per annum. The new Class Y shares are convertible at any time at the option of the holder into new Class X shares.
- (v) The holders of both the new Class X shares and the new Class Y shares will be entitled to receive their dividends either in cash or 6% preferred shares redeemable at the option of the shareholder. As is presently the case, the tax on dividends paid in preferred shares will be deferred. If and when such preferred shares are sold, the proceeds will be subject to capital gains tax.
- (vi) Application will be made to list the new Class X shares and the new Class Y shares on The Toronto Stock Exchange.

Further information pertaining to the share recapitalization will be contained in the information circular that will accompany the annual report.

The directors believe the proposed changes will have a number of advantages, viz.:

- (1) There will be a larger number of shares outstanding which should provide a broader market on the stock exchange.
- (2) There will be a class of non-voting shares, the new Class X shares, that will be available for acquisition purposes.
- (3) There will be no change in the proportionate voting rights of the holders of the present Class A and Class B shares. (This, of course, would no longer be the case if a shareholder were to convert from one new class of share into the other new class.)
- (4) The proposed changes will place shareholders in a position where they can realize part of their investment (e.g., by disposing of some or all of their new Class X shares)

without affecting their proportionate voting rights.


Since the end of the year, we have disposed of our controlling interest in York Telecommunications Limited at a satisfactory profit.

We continue to look for acquisitions and have reviewed some eighty possibilities in the last twelve months. Only a very few of those examined were attractive. We shall continue our search despite the fact that the field in Canada has become increasingly competitive in recent years.

We find it difficult to make any predictions about 1980. The economies of both Canada and the United States are in a mild cyclical recession at the present time. We expect the trend to turn upwards again towards the end of the year. On the other hand, the rate of inflation, especially in the United States, is increasing at an alarming rate. In Canada, a lot will depend on the policies adopted by the new government especially in the fields of monetary policy and exchange rate policy. If the exchange rate and interest rates are held down in Canada, we would expect some upturn in our economy by the end of the year and a more prosperous outlook for 1981.

We wish to express our sincere thanks to the senior officers of our company and its subsidiaries and to all our 5,400 employees for their contributions to our continued success.

Submitted on behalf of the Board of Directors.



Walter L. Gordon, Chairman



Peter A. G. Cameron, President

Toronto, Canada
March 17, 1980

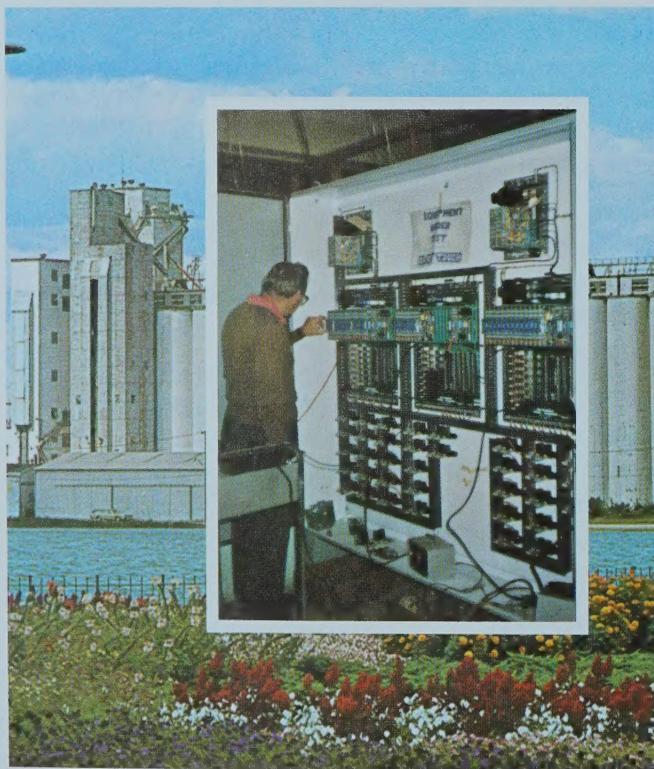
Electrical and Electronics

Chromalox Canada Inc. had an excellent increase in sales and profits during the year and is looking forward to good results in 1980.

The company recently set up a separate research facility in Mississauga, under Dr. David Crump, to work in areas such as electric heat storage, heat pumps and constant wattage cables. In addition the company is a participant in Solatherm Inc.; one of the companies chosen by the Federal Government to assist in developing solar heating in Canada.

Electro-Therm Inc. of Maryland, U.S.A. was acquired by Chromalox late in the year 1978. In 1979 the company installed new equipment in the range element line and new tube mills which can produce all the tubing required by the company. As a result Electro-Therm is looking forward to a more profitable year in 1980.

Heron Cable Industries Limited manufactures electric heating cables, portable electric heaters and charcoal lighters. 1979 was the best year in the company's history and the outlook for the coming year is excellent.



Micro processor control system for installation in grain terminals



Hull-Thomson's new facility in Windsor, Ontario

Hull-Thomson Limited supplies roll-formed and stamped parts to the automotive and appliance industries. In 1979 the company completed the construction of a new 30,000 square foot plant which will greatly increase the plant capacity. Despite the problems associated with moving to new premises the company had a satisfactory year.

Oasis Air Conditioning Inc., a joint venture with Canadian Manoir Industries Limited had a satisfactory year in 1979 and recently added a 5,000 square foot building expansion to accommodate new business scheduled for 1980.

Delhi Industries Limited, suppliers of air moving products to the heating, ventilating and air conditioning industry, experienced an increased demand for its products during the year 1979 and anticipate good volume through 1980.

Milltronics Limited is a leading manufacturer of industrial electronic measurement and control equipment for the dry bulk material process industries.

1979 was the company's most successful year with over 55% of sales being exported; the outlook for 1980 remains optimistic.

Rantech Electronics Limited is a relatively young company which manufactures electronic remote control and data acquisition systems. Major markets include electrical utilities, pipeline companies, water pumping stations, communication companies and the railroads.

Thermetic Controls Limited manufacture safety temperature limiting controls used in baseboard heaters. In addition, Thermetics designs and manufactures temperature controlling devices, fire and smoke alarms and intruder alarms.

Residential Building Supplies



Cashway outlet at Cambridge, Ont.

Larkin Lumber Limited, a major retailer of building supplies, is currently redirecting its merchandising program in order to address the growing do-it-yourself market. The company operates 60 retail outlets in Ontario under the name Cashway, and seven in Quebec under the name Renovaprix.

A subsidiary, Peterborough Lumber, constructs homes and cottages and operates a millwork plant that supplies a full line of kitchen cabinets. As well, Larkin's Redifit Wood Specialties division manufactures and supplies many of the doors and windows sold throughout the retail outlets.

During 1979, Larkin opened three stores in Ontario and three in Quebec. The interest in the Timberline stores, which operated as a joint venture with Canadian Tire Corporation, was sold to Canadian Tire during the year.

The building supply industry faced a year of escalating material costs, growing business competition, and the moderating impact of a tightening economy. Larkin's sales kept pace with inflation, however increased competition and higher operating costs combined to produce a significant decrease in profits.

Recognition of the trend experienced in 1979 has resulted in the development of major new objectives, designed to reduce costs and improve efficiency and productivity throughout the company. In addition, reorganized warehouse distribution systems coupled with a change from the cash and carry concept to full service building centres, will noticeably expand the current market penetration and bring about a return to the profitability of the past few years.



Kitchen cabinet production at Peterborough Lumber



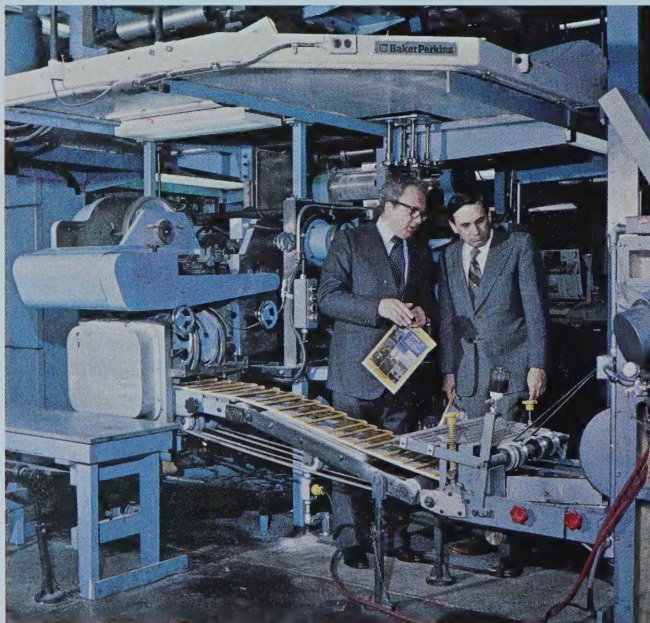
Renovaprix outlet at Valleyfield, P.Q.

Graphics

Cutler Brands Limited and Cutler Designs Limited both had excellent results in 1979. During the year new marketing strategies were implemented and new products introduced, particularly in the textile operation. The benefit of these changes and product additions will be realized in 1980.

Cutler Brands and Cutler Designs are the leaders in the promotion and manufacture of decorated glassware and textile products which continue to play an ever increasing role in the advertising specialty field and retail market.

RBW Inc. in 1979 achieved the highest levels of sales and earnings in its long history. The company is one of Canada's largest and most highly regarded printers of books, period-



F. R. Gilbey and K. L. Cruickshank inspect new Baker-Perkins web press at RBW

icals, catalogues and directories as well as being a leader in the application of computerized typesetting. Significant advances were made in 1979 in the development and marketing of an electronic publishing system, a market with tremendous growth prospects. During the year the company continued to enlarge and modernize production facilities. The two largest equipment installations in the year were a new Baker-Perkins common impression cylinder press and a new Harris high speed stitcher. An anticipated business slowdown in 1980 should not affect significantly the demand for printed products.



Glassware and textile products decorated by the Cutler companies

Regal Greetings & Gifts Limited manufactures and markets greeting cards and other paper products, plus various gift items. Catalogues are issued twice yearly to independent agents who either order by mail or from seventeen distribution centres located in the major cities across Canada. The Regal Colour Division distributes custom made envelopes to the mass mailing market; the John Bradford Division markets greeting cards and related products to Canada's major retailers. Regal sales and profits in 1979 were an all-time high and are expected to increase in 1980 through expansion and new marketing strategies.



Regal giftware items

Metallurgical and Chemical

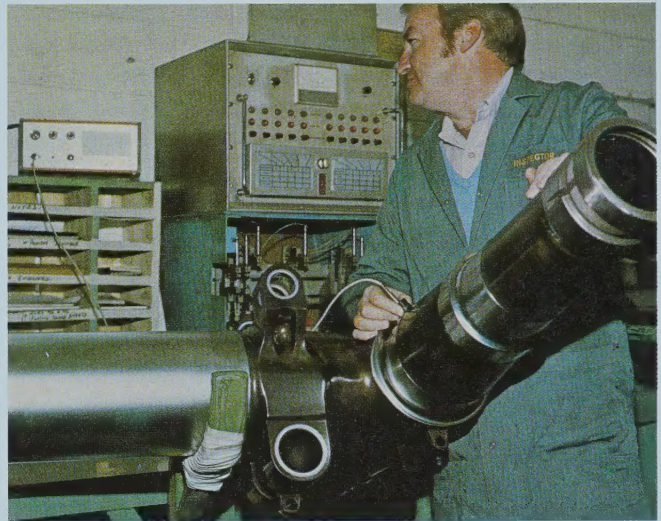
Dominion Forge Company Limited enjoyed record sales and earnings in the past year. Growth continues to be concentrated on the manufacture of forged components requiring a high degree of engineering, tooling and manufacturing skills. Seventy-five percent of sales are exported to the United States where the forging industry experienced a banner year in 1979. Although results for the first quarter of 1980 will be adversely affected by a prolonged strike at one major customer's plant and some soft spots elsewhere in the company's markets, a satisfactory year is still anticipated.



Steam operated forging hammer at Dominion Forge

The Guelph Engineering Company Limited is a leading manufacturer of valves. Although the company achieved its sales targets in 1979 and was profitable, it was a lack-lustre year in terms of new bookings. A slowdown in new power generation construction will affect the company's performance in the months ahead. 1980 will be a difficult year for this company and strategies have been implemented to minimize the company's exposure to cyclical trends in their major markets.

Neo Industries Limited continued to improve its position as the leading hard chrome plating and specialized machining operation in Canada using the cumulative experience in engineering and manufacturing coupled with innovative marketing techniques. During 1979 exports to eight countries



Precision hard chrome plating of landing gear at Neo

comprised thirty percent of sales. To keep pace with the company's rapid growth and diversification, an addition to the Saltfleet plant was completed in 1979.

Northern Pigment Limited experienced very favourable results in 1979. Sales of synthetic iron oxides to manufacturers of paint and concrete products increased and it is expected this trend will continue in 1980. Major investments were undertaken to increase capacity. Sales to the ceramic ferrite market in the United States were not as robust as in recent years.



100,000 gallon storage tank at Northern Pigment

Products and Services

IEC-Holden Inc. benefitted from a very favourable economic climate in the railroad industry in 1979. In addition to acting as sales representatives for many companies, IEC-Holden manufactures a number of proprietary specialty devices. Manufactured products now account for nearly 50 percent of sales. In spite of the recent easing in demand for new railroad equipment, 1980 should be another good year for the company. Pandrol (Canada), which manufactures rail fasteners, enjoyed the biggest year in its history.

Tender Tootsies Limited is one of Canada's leading manufacturers of ladies slippers and shoes. Their aggressive mar-



Tender Tootsies new "Temptation" fashion sensation marketing and production techniques generated strong 1979 sales gains.

The development of a new higher priced fashion shoe called "Temptations", and expansion of ladies winter boots "Toewarmers" contributed substantially to the company's success.

1980 appears to be another banner year as Tender Tootsies works harder than ever to make Canada's most popular footwear "always a little better!"

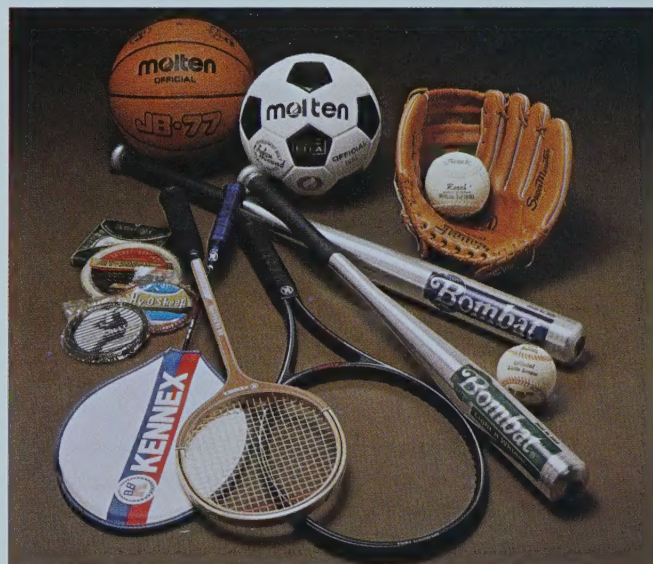
Jelinek Sports, Oakville division was successful in sub-



A. E. Burr, R. B. Winsor and W. M. Zacharkiw inspecting nailable steel flooring production at IEC-Holden

stantially reducing inventories and achieving close to budgeted profits in 1979. During the year the company introduced two new nationally branded lines, the Kennex line of racquets and Reach baseball equipment.

Two years of extremely poor ski conditions in Eastern Canada resulting in the carryover of surplus inventory from prior years and a highly competitive marketplace have had serious consequences for the ski industry and the Mariano division. Although inventories were reduced, losses were incurred and it will take until the end of 1980 to reach satisfactory operating levels.



Nationally branded products sold by Jelinek Sports

Consolidated Statement of Income for the year ended December 31, 1979
(with 1978 figures for comparison) (thousands of dollars except per share data)

	1979	1978
Revenue:		
Sales	\$381,532	316,800
Investment income	18	104
	381,550	316,904
Expenses:		
Cost of sales, selling and administrative expenses	350,066	291,186
Interest	8,595	4,706
	358,661	295,892
Income before undernoted items	22,889	21,012
Income taxes	8,976	8,834
Income before minority interest	13,913	12,178
Interest of minority shareholders in income of subsidiary companies	674	771
Net income	\$ 13,239	11,407
Net income per common share	\$ 5.93	5.15

Consolidated Statement of Retained Earnings for the year ended December 31, 1979
(with 1978 figures for comparison) (thousands of dollars)

	1979	1978
Retained earnings at beginning of year	\$ 59,964	71,264
Net income	13,239	11,407
	73,203	82,671
Deduct dividends:		
On common shares		
Cash—special		19,376
—regular	1,547	1,933
Stock	1,809	1,389
	3,356	22,698
On preferred shares	56	9
	3,412	22,707
Retained earnings at end of year	\$ 69,791	59,964

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet December 31, 1979

(with 1978 figures for comparison) (thousands of dollars)

ASSETS	1979	1978
Current assets:		
Cash and term deposits	\$ 782	3,800
Accounts receivable	50,490	49,922
Inventories (note 2)	88,484	75,637
Prepaid expenses	1,575	1,071
Total current assets	141,331	130,430
Property, plant and equipment (note 3)	36,076	34,663
Other assets:		
Non-current receivables and sundry investments	6,920	6,376
Goodwill and patents	1,161	1,410
Total other assets	8,081	7,786
Approved by the Board:		
Peter A. G. Cameron, Director		
Walter L. Gordon, Director		
	\$185,488	172,879

See accompanying notes to consolidated financial statements.

Auditors' Report

TO THE SHAREHOLDERS OF
CANADIAN CORPORATE MANAGEMENT COMPANY LIMITED:

We have examined the consolidated balance sheet of Canadian Corporate Management Company Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31,

LIABILITIES AND SHAREHOLDERS' EQUITY	1979	1978
Current liabilities:		
Bank advances (note 4)	\$ 49,333	36,642
Accounts payable and accrued charges	30,504	36,391
Income and other taxes payable	4,656	4,474
Dividends payable	563	433
Current portion of long-term debt	3,760	4,167
Total current liabilities	88,816	82,107
Deferred income	893	1,485
Long-term debt (note 5)	15,368	19,757
Deferred income taxes	1,470	2,650
Minority interest in subsidiary companies	4,358	4,833
Shareholders' equity:		
Stated capital (note 6)	4,792	2,083
Retained earnings	69,791	59,964
Total shareholders' equity	74,583	62,047
	\$185,488	172,879

1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 29, 1980

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Statement of Changes in Financial Position for the year ended December 31, 1979
(with 1978 figures for comparison) (thousands of dollars)

	1979	1978
Financial resources provided by:		
Income before minority interest	\$13,913	12,178
Items not involving financial resources:		
Depreciation and amortization	5,975	5,299
Amortization of goodwill and patents	249	171
Deferred income taxes	(1,180)	(425)
Financial resources provided from operations	18,957	17,223
Issue of common shares	1,786	
Disposal of property, plant and equipment	1,180	695
Increase in long-term debt		6,817
Decrease in non-current receivables and sundry investments		3,941
	21,923	28,676
Financial resources used for:		
Purchase of property, plant and equipment	8,568	9,627
Decrease in long-term debt	4,389	
Cash dividends paid by parent company	1,603	21,318
Dividends and other payments to minority interests	1,049	974
Redemption of preferred shares	886	569
Decrease in deferred income	592	562
Increase in non-current receivables and sundry investments	544	
Purchase of minority interest in subsidiary companies	100	1,822
Acquisition of subsidiary company		1,994
	17,731	36,866
Increase (decrease) in working capital	4,192	(8,190)
Working capital at beginning of year	48,323	56,513
Working capital at end of year	\$52,515	48,323

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1979

The company is subject to the provisions of the Canada Business Corporations Act. The company is engaged in a broad range of manufacturing, distribution and service activities throughout Canada.

1. Significant Accounting Principles

The accounting principles of the company conform in all material respects with accounting principles generally accepted in Canada. The significant accounting principles are summarized below.

Basis of Consolidation

The consolidated financial statements include the accounts of Canadian Corporate Management Company Limited and its subsidiary companies. Acquisitions of such companies are accounted for by the purchase method and the results of their operations are included in the consolidated statement of income from the respective dates of acquisition. Investments in incorporated joint ventures are accounted for by the equity method.

Translation of Foreign Currencies

Foreign currencies are translated to Canadian dollars as follows: revenue and expenses at exchange rates effective on the transaction dates; non-current assets and non-current liabilities at historical rates; current assets and current liabilities at rates in effect at the year end. Foreign exchange gains and losses are included in income.

Inventories

Inventories are stated at the lower of cost and market, with cost being determined on a first-in, first-out basis, the market value of finished goods, work in process and land held for development being net realizable value, and the market value of raw materials being replacement cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful lives of each class of asset using the declining-balance method. Leasehold improvements are amortized on a straight-line basis over the terms of the leases.

Goodwill and Patents

Goodwill arising on acquisitions is amortized over periods not exceeding ten years. Patents are amortized over their legal lives.

Comparative Figures

Certain 1978 figures have been reclassified for comparative purposes.

2. Inventories

(Thousands of Dollars)

	1979	1978
Finished goods	\$45,057	41,455
Work in process	11,341	9,785
Raw materials	25,923	20,149
	<u>82,321</u>	<u>71,389</u>
Land held for development	6,163	4,248
	<u>\$88,484</u>	<u>75,637</u>

3. Property, Plant and Equipment

		(Thousands of Dollars)			
		1979		1978	
	Depreciation and Amortization	Cost	Net Book Value	Cost	Net Book Value
Buildings	4%—10%	\$24,296	14,572	22,076	13,351
Machinery and equipment	20%—30%	53,471	17,062	49,889	16,652
Leasehold improvements	Term of lease	2,039	902	1,850	940
		79,806	32,536	73,815	30,943
Land		3,540	3,540	3,720	3,720
		\$83,346	36,076	77,535	34,663

4. Bank Advances

Bank loans of \$16,233,000 are secured by specific and floating charges on assets of the applicable subsidiaries.

5. Long-term Debt

		(Thousands of Dollars)	
	Average Interest Rates	1979	1978
Bank term loans	½% above bank prime rate	\$13,279	18,472
Mortgages and other secured debt	9¼%	3,674	2,294
Other unsecured debt	8¾%	2,175	3,158
		\$19,128	23,924

Approximate principal repayments are as follows:

1980		\$ 3,760
1981	\$ 4,111	
1982	3,711	
1983	2,839	
1984	2,451	
1985 and later	2,256	15,368
Total long-term debt		\$19,128

Bank term loans of approximately \$6,379,000 are secured by assignment of assets or pledge of shares of subsidiary companies.

Long-term debt includes U.S. dollar obligations of \$4,137,000 at their Canadian equivalent of \$4,897,000.

Interest on long-term debt was \$2,501,000 in 1979 (1978—\$1,709,000).

6. Stated Capital

	Class A	Class B	Issued Shares	Stated Capital (thousands of dollars)
Convertible common shares:				
Balance, December 31, 1978.	1,003,548	1,210,844	2,214,392	\$1,263
Issued under share purchase plan . .	39,400	52,200	91,600	1,786
Conversions—net	6,550	(6,550)	—	—
Balance, December 31, 1979.	<u>1,049,498</u>	<u>1,256,494</u>	<u>2,305,992</u>	<u>3,049</u>
Cumulative preferred shares, redeemable at \$10 per share with dividends of 60¢ per share:				
Balance, December 31, 1978.			82,029	820
Issued as stock dividends on Class B common shares.			180,926	1,809
Redemptions.			(88,654)	(886)
Balance, December 31, 1979.			<u>174,301</u>	<u>1,743</u>
Stated capital, December 31, 1979				<u>\$4,792</u>

The Class A and Class B shares are interconvertible on a one-for-one basis and rank equally as to dividends. Preferred shares of the company are issued as stock dividends on the Class B common shares. The preferred shares are redeemable at the option of the holder but may be redeemed at the option of the company after December 31, 1983.

During the year 39,400 Class A and 52,200 Class B common shares were issued under the terms of a share purchase plan for senior executives. The consideration for the purchase of \$1,786,200 was outstanding at December 31, 1979 and is included in non-current receivables in the accompanying consolidated balance sheet.

The company is a constrained share corporation under the Canada Business Corporations Act whereby the total number of voting shares outstanding that may be held by non-residents is restricted to 25% and the number that may be held by any single non-resident is restricted to 10%.

7. Contingencies and Commitments

The company and its subsidiaries have commitments under long-term operating lease agreements for various periods up to 1997. Future minimum rental payments under such lease obligations outstanding at December 31, 1979 are due as follows:

	(Thousands of Dollars)
1980.	\$2,386
1981.	1,793
1982.	1,430
1983.	981
1984.	801
1985 and later	1,605

Operating lease payments charged to income in 1979 were approximately \$2,400,000.

At December 31, 1979 the unfunded past service costs of employees' pension plans as actuarially estimated amount to \$7,442,000. The unfunded past service costs will be funded and charged to operations over periods to fifteen years.

The company and its subsidiaries are contingently liable for \$2,000,000 in respect of guarantees.

Segmented Information by Class of Business for the year ended December 31, 1979

(with 1978 figures for comparison) (thousands of dollars)

	Sales		Net Income	
	1979	1978	1979	1978
Electrical and Electronics	\$ 82,019	57,994	8,945	5,725
Residential Building Supplies	118,895	109,233	5,548	7,966
Graphics	65,060	56,953	6,351	4,531
Metallurgical and Chemical	56,329	49,028	6,608	6,196
Products and Services	59,229	43,592	5,240	2,887
	381,532	316,800	32,692	27,305
Less				
Head Office Expenses			1,208	1,587
Interest Expense			8,595	4,706
Income Taxes			8,976	8,834
Interest of Minority Shareholders			674	771
			19,453	15,898
Total	\$381,532	316,800	13,239	11,407

	Identifiable Assets		Capital Expenditures		Depreciation and Amortization	
	1979	1978	1979	1978	1979	1978
Electrical and Electronics	\$ 41,604	37,690	1,729	1,571	1,053	743
Residential Building Supplies	46,802	43,206	2,760	3,259	1,715	1,403
Graphics	32,113	30,643	1,453	3,514	1,413	1,538
Metallurgical and Chemical	28,675	25,045	2,105	926	1,279	1,164
Products and Services	32,503	34,963	461	338	492	437
Head Office	3,791	1,332	60	19	23	14
	\$185,488	172,879	8,568	9,627	5,975	5,299

Sales for 1979 include export sales of \$41,676 (1978—\$33,653), primarily to customers in the United States.

Subsidiary Companies and Senior Officers

Electrical and Electronics

Chromalox Canada Inc.

Toronto, Ontario
Z. D. Simo, President
G. E. Marshall, Vice President Marketing and General Sales Manager
W. M. Argue, Vice President, Operations
S. F. Smith, Controller

Electro-Therm, Inc.

Laurel, Maryland, U.S.A.
L. D. Drugmand, President

Glengarry Industries

Cambridge, Ontario
H. J. Langille, General Manager

Heron Cable Industries Limited

Waterloo, Ontario
A. W. Mondoux, General Manager

Eastern Wire & Conduits

Toronto, Ontario
A. W. Mondoux, General Manager

Hull-Thomson Limited

Windsor, Ontario
W. M. Argue, President
D. J. Panton, General Manager

Oasis Air Conditioning Inc.

Mississauga, Ontario
C. R. Hollaman, General Manager

Rantech Electronics Limited

Toronto, Ontario
N. C. Reed, Vice President and General Manager

Solatherm Inc.

Mississauga, Ontario
J. A. Atkinson, President

Delhi Industries Limited

Delhi, Ontario
G. K. McClatchie, President

Milltronics Limited

Peterborough, Ontario
A. E. Gillis, President

Thermetic Controls Limited

Toronto, Ontario
W. G. Rea, President

Residential Building Supplies

Larkin Lumber Limited

Canada Cashway Lumber Limited
Cashway North Limited
Mississauga, Ontario
J. F. Haldimand, President

Burnel Graham Co. Limited

Schomberg, Ontario
T. R. Graham, President

Peterborough Lumber Limited

Peterborough, Ontario
J. A. Webster, General Manager

Renovaprix (1978) Inc.

Dorval, Quebec
R. Garipey, President

Graphics

Cutler Brands Limited

Cutler Designs Limited

Toronto, Ontario
E. H. Durnan, President

RBW Inc.

Owen Sound, Ontario
R. A. Morrison, President

Regal Greetings & Gifts Limited

Toronto, Ontario
J. P. Parker, President

Metallurgical and Chemical

Dominion Forge Company Limited

Windsor, Ontario
E. J. Marks, Vice President and General Manager

The Guelph Engineering Company Limited

Guelph, Ontario
J. R. Gauch, President

Neo Industries Limited

Hamilton, Ontario
J. P. Jones, President

Northern Pigment Limited

Toronto, Ontario
R. Fraser, President

Products and Services

Arosa Properties Limited

Toronto, Ontario
E. C. LaBerge, President

IEC-Holden Inc.

Montreal, Quebec
R. B. Winsor, President

Jelinek Sports

Oakville, Ontario
A. C. B. Wells, President

O.C.R. Concepts Ltd.

Toronto, Ontario
D. V. Loft, President

Tender Tootsies Limited

London, Ontario
S. E. Lyons, President

Ten Year Summary

(thousands of dollars except per share data)

	1979	1978	1977	1976	1975	1974
Operating Statistics						
Sales	\$ 381,532	316,800	286,387	294,994	268,587	238,070
Earnings before income taxes, minority interest and extraordinary items	\$ 22,889	21,012	21,465	21,870	26,063	19,914
Income taxes	\$ 8,976	8,834	8,617	9,594	12,057	9,391
Income before extraordinary items	\$ 13,239	11,407	11,834	11,260	12,237	9,331
—per common share	\$ 5.93	5.15	5.34	5.08	5.53	4.21
Net income	\$ 13,239	11,407	11,834	11,606	12,319	9,415
—per common share	\$ 5.93	5.15	5.34	5.24	5.56	4.25
Dividends declared	\$ 3,412	22,707	3,254	2,648	2,448	2,140
Dividends paid on common shares						
—per Class A share	\$ 1.50	1.50	1.50	1.22½	1.20	1.00
—per Class B share	\$ 1.50	1.50	1.38¾	1.04½	1.02	.85
—Special dividend		8.75				
Other Statistics						
Current assets	\$ 141,331	130,430	102,729	104,178	97,209	87,515
Current liabilities	\$ 88,816	82,107	46,216	54,849	58,244	53,652
Working capital	\$ 52,515	48,323	56,513	49,329	38,965	33,863
—ratio of current assets to current liabilities	1.6 to 1	1.6 to 1	2.2 to 1	1.9 to 1	1.7 to 1	1.6 to 1
—per common share	\$ 22.77	21.82	25.52	22.28	17.60	15.29
Property, plant and equipment (net)	\$ 36,076	34,663	29,417	28,931	27,763	21,656
Additions	\$ 8,568	9,627	5,751	7,039	8,320	6,388
Dépreciation expense	\$ 5,975	5,299	4,559	4,781	4,018	3,682
Shareholders' equity	\$ 74,583	62,047	72,527	64,014	55,287	45,625
—per common share	\$ 31.59	27.65	32.75	28.91	24.97	20.60
Price range of Class A shares	\$ 28¼-21	34¾-25	28-21	28½-20	23½-16½	26½-15

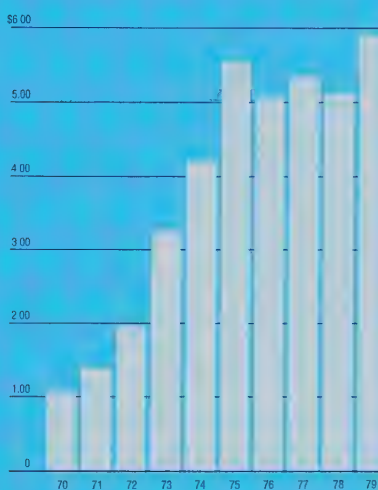
NOTES

1. In 1971, the common shares were designated as Class A shares and at the same time Class B shares were so designated to facilitate the payment of dividends out of tax-paid undistributed surplus or 1971 capital surplus. Effective July 1978 dividends on the Class B shares were paid in the form of 6% redeemable preferred shares. Both Class A and Class B shares are convertible into the other on a one-for-one basis.
2. The above figures for 1972 to 1975 have been restated from figures originally reported to reflect consolidation of the accounts of Arosa Properties Limited; this restatement does not change the net income.
3. The special dividend of \$8.75 per share in 1978 was paid on both Class A and Class B shares out of 1971 Capital Surplus.

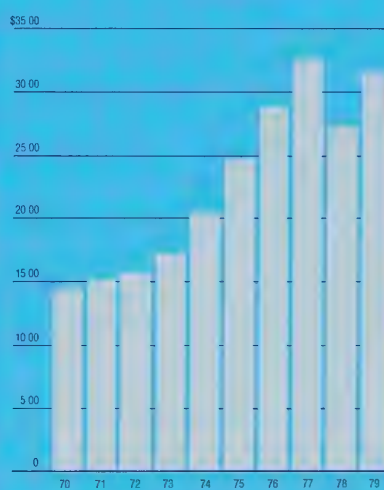
1973	1972	1971	1970
76,206	137,688	120,616	104,954
15,314	10,277	6,858	5,852
7,254	5,077	3,362	3,160
7,191	4,330	3,054	2,329
3.25	1.96	1.43	1.09
7,191	4,502	3,334	2,520
3.25	2.03	1.56	1.18
1,730	1,332	1,414	1,199
.84	.66	.56	.67
.714	.561		

78,176	58,457	41,153	37,643
40,881	28,785	18,498	17,287
37,295	29,672	22,655	20,356
1.9 to 1	2.0 to 1	2.2 to 1	2.2 to 1
16.84	13.40	10.58	9.50
20,264	15,656	16,112	14,886
4,799	3,902	3,140	4,743
2,810	2,447	2,106	1,550
38,648	35,166	32,790	31,367
17.45	15.88	15.31	14.64
26¾-19	22½-15	16-10¼	15½-9½

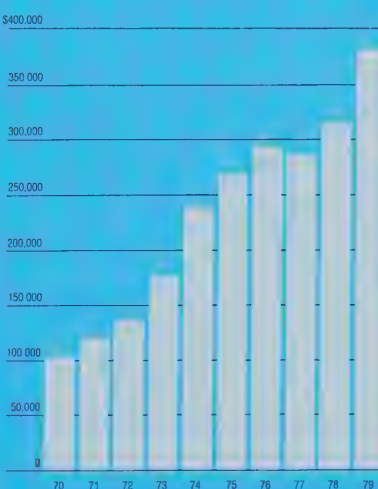
Income per Common Share before Extraordinary Items



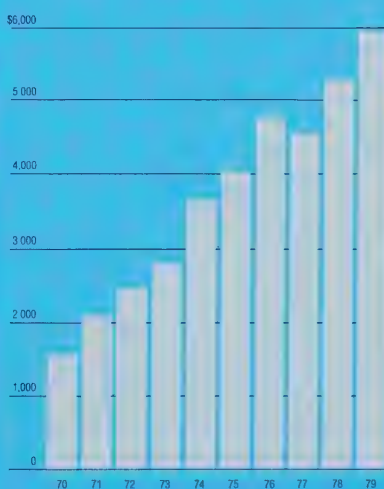
Equity per Common Share



Sales (thousands)



Depreciation and Amortization (thousands)



1979 Results by Quarters

Quarter	Sales	Net Income
First	\$ 77,087	1,479
Second	93,997	2,942
Third	103,008	3,727
Fourth	107,440	5,091
	\$381,532	13,239

Income Per Common Share (before extraordinary items)

Quarter	1979	1978	1977	1976	1975
First	\$.66	.54	.36	.73	.74
Second	1.33	1.07	1.19	.97	.97
Third	1.67	1.63	1.61	1.03	1.35
Fourth	2.27	1.91	2.18	2.35	2.47
	\$5.93	5.15	5.34	5.08	5.53

Summary of company operations by class of business

(thousands of dollars)

Electrical and Electronics

Sales and net income for the group

	1979	1978	1977	1976	1975
Sales	\$82,019	\$57,994	\$53,453	\$48,458	\$44,111
Income before extraordinary items	4,852	3,425	3,673	3,464	4,558

Chromalox Canada Inc. Toronto, Ontario

Chromalox is Canada's leading manufacturer of electrical comfort conditioning equipment such as baseboard heaters, electric recirculation heaters and commercial and industrial convection and forced air heaters. In addition the company manufactures a full range of heating elements for electric ranges, water heaters, dishwashers and small domestic appliances.

Industrial process heating which includes electric hot water and steam boilers and immersion heaters for industry and nuclear purposes is another important product line.

Electro-Therm, Inc. Laurel, Maryland, U.S.A.

The company has two plants in Maryland, manufacturing resistance heating elements for OEM's in the electric hot water heater business, electric range business and table top appliances. It also manufactures products for industrial process heating.

Products are marketed to OEM's, industrial users and the appliance aftermarket through representatives under the trade name "Thermolink".

Glengarry Industries Cambridge, Ontario

Glengarry Industries supplies Chromalox and other manufacturers with components such as roll formed parts, tubing and stampings. The facility includes the latest equipment for electrostatic painting.

Heron Cable Industries Limited Waterloo, Ontario

Heron Cable manufactures under the trade name "Sentinel" electric heating cable, portable heaters, charcoal and log lighters as well as plant starter cable under the trade name "Green-Start" for the commercial and home gardener.

Eastern Wire and Conduits and Taymer Industries, a subsidiary of Heron Cable, manufactures Rayflex aluminum flexible conduit, Hydro-tite liquid tight flexible conduit and Taymer sequential measuring and printing machines used by wire and cable manufacturers.

Hull-Thomson Limited Windsor, Ontario

Hull-Thomson's main business is supplying roll-formed and stamped parts to the North American automotive and appliance industries.

Oasis Air Conditioning Inc. Mississauga, Ontario

A joint venture company between Duo-Matic/Olsen and Chromalox. The Company manufactures through-the-wall unitary and ducted heating and air conditioning equipment and residential split system air-conditioning plus electric warm air furnaces.

Rantech Electronics Limited Toronto, Ontario

Rantech designs and manufactures solid state electronic equipment and systems for telemetry, data acquisition and supervisory control for utilities, pipelines, communication companies and industrial applications.

Solatherm Inc. Mississauga, Ontario

Solatherm manufactures and markets solar panels, accessories and swimming pool equipment.

Delhi Industries Limited Delhi, Ontario

Delhi Industries is the only Canadian owned company supplying centrifugal blowers to the forced warm air heating and air conditioning industries. The company is also the largest Canadian manufacturer of gas manifolds for commercial and domestic appliances.

Milltronics Limited Peterborough, Ontario

Milltronics designs and manufactures industrial process control equipment including ultrasonic level and flow measuring systems, impactline solids flowmeters, ore grinding mill control systems, motion detectors and various process sensors.

The company operates a facility in Arlington, Texas to better serve U.S. customers.

Thermetic Controls Limited Mississauga, Ontario

Thermetic Controls manufactures linear cut-outs, a safety device used in baseboard heaters and other electrical control devices for the electric heating and cooling market.

In addition the company designs and manufactures fire and smoke alarms and intruder alarms.

Residential Building Supplies

Sales and net income for the group

	1979	1978	1977
Sales	\$118,895	\$109,233	\$97,023
Income before extraordinary items	1,974	3,835	4,017

Larkin Lumber Limited Mississauga, Ontario

Larkin Lumber is one of Canada's major retailers of building supplies. It operates 67 retail outlets in Ontario and Quebec under the names of **Cashway Lumber, Cashway North, Peterborough Lumber, Burnel Graham and Renovaprix.**

Peterborough Lumber is also active in cottage and home building as well as land development. This Company operates a mill-work plant supplying a complete line of kitchen cabinets.

Graphics

Sales and net income for the group

	1979	1978	1977	1976	1975
Sales	\$65,060	\$56,953	\$49,248	\$49,696	\$42,598
Income before extraordinary items	3,161	2,350	2,233	1,550	1,289

Cutler Brands Limited Toronto, Ontario

Cutler Brands is Canada's largest manufacturer of decorated glass products. Product lines include a full range of plain and decorated tableware items, decorated flat and bent glass components for incandescent lighting and decorated back panels and oven door windows for appliance manufacturers.

Cutler Designs Limited Toronto, Ontario

Cutler Designs is Canada's largest textile decorator of cut textile pieces. The company decorates towels, T-shirts, linen calendars and tea towels by means of special textile pigments using the silk screen process. Complete design, photographic and screen making facilities are available for customer service.

RBW Inc. Owen Sound, Ontario

RBW Inc. is one of Canada's leading commercial printing operations specializing in five product lines—book manufacturing, publications, consumer advertising and catalogues, commercial catalogues and data graphics. The company offers a complete range of services from the most advanced computer controlled phototypesetting systems to completely automated high speed plate making equipment. Modern press equipment includes the ultimate in multi-colour web offset printing and the complete-service bindery operation ensures maximum quality and speed on every job.

Regal Greetings & Gifts Limited Toronto, Ontario

Regal manufactures a full line of greeting cards, personalized stationery, gift wrap, envelopes and a unique line of miscellaneous paper products. It also merchandises a wide range of novelty gift and household items purchased from around the world. The company issues spring and Christmas catalogues each year to a large team of independent sales personnel who may obtain the catalogue items by mail order or directly from distribution centres located in major Canadian cities.

Metallurgical and Chemical

Sales and net income for the group

	1979
Sales	\$56,329
Income before extraordinary items	3,723

Dominion Forge Company Limited Windsor, Ontario

Dominion Forge is one of the largest independent closed impression die forging operations in North America. The company is regarded as a leading source of forged components for such markets as automotive, earth moving, off-highway vehicles and heavy trucks. The passenger car market accounts for about twenty percent of sales compared to seventy percent several years ago. The company also operates a cold extrusion division in the same facility.

The Guelph Engineering Company Limited Guelph, Ontario

Guelph Engineering is a major producer of valves for the power generating, oil and gas transmission and petrochemical markets specializing in products requiring a high level of quality assurance. Products are sold throughout Canada and the United States.

Chemical

Group

1978	1977	1976	1975
\$49,028	\$43,903	\$42,903	\$34,922
3,724	2,281	2,641	2,053

Neo Industries Limited

Hamilton, Ontario

Neo Industries is primarily a roll manufacturer and producer of specialized machined and hard chrome plated parts for a wide variety of industries. Customers include the steel, rubber, plastic, packaging, mining and aircraft industries and manufacturers of photo copier equipment.

Northern Pigment Limited

Toronto, Ontario

Northern Pigment is a leading producer of synthetic iron oxides. Regular grade oxides are used for pigmentation in the manufacture of paint, rubber, plastics and concrete products. The company also produces oxides for the hard and soft ceramic ferrite markets. The majority of the oxides used in the production of ferrites are exported to the United States and Europe.

Products and Services

Sales and net income for the group

	1979	1978	1977	1976	1975
Sales	\$59,229	\$43,592	\$42,760	\$50,296	\$58,537
Income before extraordinary items	2,358	1,093	1,209	2,152	1,787

Arosa Properties Limited

Toronto, Ontario

Arosa Properties is engaged in real estate and land development in the major metropolitan areas of Southern Ontario.

IEC-Holden Inc.

Montreal, Quebec

IEC-Holden is a leading supplier in Canada of railway specialty products and services to railroad equipment builders and railway maintenance operations. The company manufactures a number of proprietary specialty devices including hopper outlet gates, damage free bulkhead equipment for box cars, nailable steel flooring and corrugated steel box car liners.

Pandrol Canada Limited, a joint venture with Elastic Rail Spike Co. Ltd. of England, produces rail clips used as fastenings to concrete ties.

Jelinek Sports

Oakville, Ontario

Jelinek Sports Oakville Division is a supplier of sports equipment for tennis, badminton, baseball, basketball, soccer, track and field and other sporting activities. Products are sold through retailers and institutional accounts.

Mariano Sports, based in Montreal, imports and distributes cross country and downhill ski equipment and accessories.

O.C.R. Concepts Ltd.

Toronto, Ontario

O.C.R. Concepts provides optical character recognition equipment and service bureau facilities for the conversion of source data to a computer compatible medium via the optical character recognition technique.

Tender Tootsies Limited

London, Ontario

Tender Tootsies is one of Canada's leading manufacturers of ladies slippers and shoes. Using the most efficient production techniques and creative merchandising methods, the company provides the most popular footwear to Canadian women. "Tender Tootsies," "Woc-A-Mocs," "Lullabies," "So-Softs," and "Pillow Pampers" are a few of their well known trade names.

